



to: **Janette Casillas** date: **November 15, 2011**  
from: **Pete Davidson** subject: **MRMIP Enrollment  
Recommendation**

As requested, we have updated our analysis of the Major Risk Medical Insurance Program (MRMIP) revenues, expenses, and enrollment for calendar year 2012. MRMIP enrollment has declined slightly since the enrollment target was raised to 8,000 in May 2011, presumably in large part due to the more generous benefits and lower premiums available under the California Pre-existing Condition Plan (PCIP), the temporary federal high risk pool created under the Affordable Care Act. On an accrual basis, funds appear sufficient to support MRMIP enrollment in excess of 10,000 during calendar 2012, however on a cash basis current projections indicate enrollment at this level may create a shortfall at the end of fiscal year 2012-2013 unless additional revenues, such as from outstanding MRMIP settlements, are received. We are recommending that the enrollment target remain at 8,000. If additional funding becomes available, increasing the enrollment target may be possible. Due to the time it takes for enrollment to ramp up, we believe an enrollment target of 8,000 is reasonable, and active monitoring of enrollment and financial results will enable MRMIB to manage enrollment within its appropriation as the experience develops. It may also be appropriate to consider changes to the MRMIP program, such as bringing benefits and premiums closer to that offered under PCIP.

In developing the recommendation, we relied upon enrollment, premium, and claims data files and other information provided by Managed Risk Medical Insurance Board (MRMIB) and participating health plan staff. Our analysis was supported by continuing efforts by MRMIB staff to finalize the reconciliation settlements for past years; however challenges remain in getting healthplans to agree to settlements, which continues to add significant uncertainty to the funding available in future periods.

### **Background**

MRMIP and the Guaranteed Issue Pilot Program (GIP) share a single funding amount. Thus, the number of individuals that can be covered under MRMIP is dependent on the funding remaining after the State pays its share of GIP costs. Financing of MRMIP and GIP is essentially on a pay-as-you-go basis, with annual appropriations and a stated goal of achieving a fund balance as close to zero as possible, without going negative, on June 30 of each year. Strict conformity with this goal would result in wide fluctuations in MRMIP enrollment targets from year-to-year, so we generally model fund balances over multiple years to smooth results. Pay-as-you-go financing is particularly challenging for MRMIP/GIP due to the settlement process under which the State's and healthplans' ultimate liabilities are determined; this process generally takes several years to complete, though MRMIB is making substantial efforts to reduce this timeframe. These settlements may result in additional payments to or recoveries from the health plans in the amount of several million dollars, which directly and significantly impacts the funds available to cover MRMIP enrollees in the current period. MRMIB has some ability to control the timing of settlement payments, so there may be opportunities to delay or speed up payments to manage year-end fund balances if necessary, which may affect results for a given year, but doesn't change the longer term cost to the program.



Projections of cash flows can be used to understand the extent to which available funds are expected to cover anticipated program expenditures during a given time period, however it does not provide information on the long-term obligations to MRMIB associated with current, past, or future enrollees. To the extent that these obligations can be reasonably estimated we recommend that reserves be established by MRMIB, which is a departure from pay-as-you-go financing. Reserves are typically established to recognize all costs expected to be incurred during a given time period, often one year. Depending on the Board's philosophy, reserves could be established reflecting the expected net settlement liability for the next year of coverage or some portion of it; the reserves could also be built up over time or set aside immediately. The downside to establishing reserves is that those funds are no longer available to finance current and future enrollees, and the MRMIP enrollment target must be reduced to a level lower than it would be under a pay-as-you-go approach. If adequate reserves are not established and retained, MRMIB's ability to finance its existing MRMIP enrollment may be affected when the liabilities come due. However, we understand that when MRMIB has historically established reserves or maintained significant year-end fund balances in the past, these monies have been targeted and sometimes lost during the State budgeting process. Because the liabilities remain, future enrollment must then be reduced.

The development of accurate estimates of GIP settlement liabilities is confounded by the substantial delays in healthplan reporting of claims experience, premium revenue, and enrollment. For example, the most recent available GIP claims experience covers calendar year 2009. In September 2007, MRMIP stopped disenrolling members after 36 months in the program, and no new GIP enrollees have been added since that time. The most recent available GIP enrollment data indicates that enrollment is declining by an average of approximately 2% per month so we expect GIP settlement activities to be an issue for several more years barring legislative changes impacting GIP. Implementation of PCIP in late October 2010 does not appear to have materially affected the rate of disenrollment, most likely due to the requirement that PCIP applicants be uninsured for 6 months to be eligible. At this time it is unclear whether MRMIB will continue to have liability for GIP enrollees after PCIP terminates operation at the end of 2013 and other Federal Health Reform measures such as guarantee issue in the Individual market go into effect.

### **Analysis**

For the purpose of developing the enrollment target for calendar year 2012, we projected cash flows for the remainder of calendar year 2011 and through fiscal year 2012-2013. These projections were developed with the assistance of MRMIB staff, who developed the assumptions related to the timing and amount of anticipated settlements based on analysis of invoices submitted by the participating health plans. Note that there are some significant differences in the assumed settlements compared to the assumptions applied in the development of the May 2011 enrollment target. The differences are primarily due to the assumed timing of settlements though amounts have been revised as well. Consistent with the estimate supporting the May 2011 enrollment target, several receivables due from plans for past MRMIP coverage periods have been excluded due to difficulties in accurately predicting the timing and amount of payments from these plans.

The following list summarizes the primary assumptions underlying the projections:



- In May 2011, we recommended and the Board approved a MRMIP enrollment target of 8,000 members for fiscal year 2011-2012.
- MRMIP enrollment as of September 2011 was 6,563 members.
- Our current estimate of the annual subsidy for MRMIP enrollees for calendar year 2012 is approximately \$2,406 per member. The attached Exhibit 1 summarizes the development of this figure.
- The MRMIP fund balance was approximately \$40.9 million as of September 30, 2011.
- Budget appropriations
  - FY 2011-2012 appropriation for local assistance of \$29.2 million was received August 2011.
  - Fines and penalties of approximately \$2.4 million were received October 2011.
  - FY 2012-2013 appropriations are expected to be \$30.6 million and received August 2012.
  - Fines and penalties of approximately \$2.4 million are expected in October 2012.
- MRMIP settlements -- note that due to consistent problems finalizing and recovering MRMIP settlement receivables the majority of these amounts have been excluded from the cash flow projection
  - Up to \$31.4 million estimated due from plans is not included in cash flow projection
- GIP settlements
  - A net of \$26.3 million estimated due to plans during FY 2011-2012 and FY 2012-2013

Based on the assumptions above, we projected monthly MRMIP fund balances through the end of fiscal year 2012-2013. We modeled various MRMIP enrollment scenarios with a goal of positive but not excessive fund balances at the end of fiscal years 2011-2012 and 2012-2013. We assumed that positive fund balances would be retained by MRMIB; to the extent this is not true, enrollment targets may have to be decreased. In recent months MRMIP enrollment has been stagnant and is currently nearly 1,500 members below the 8,000 target.



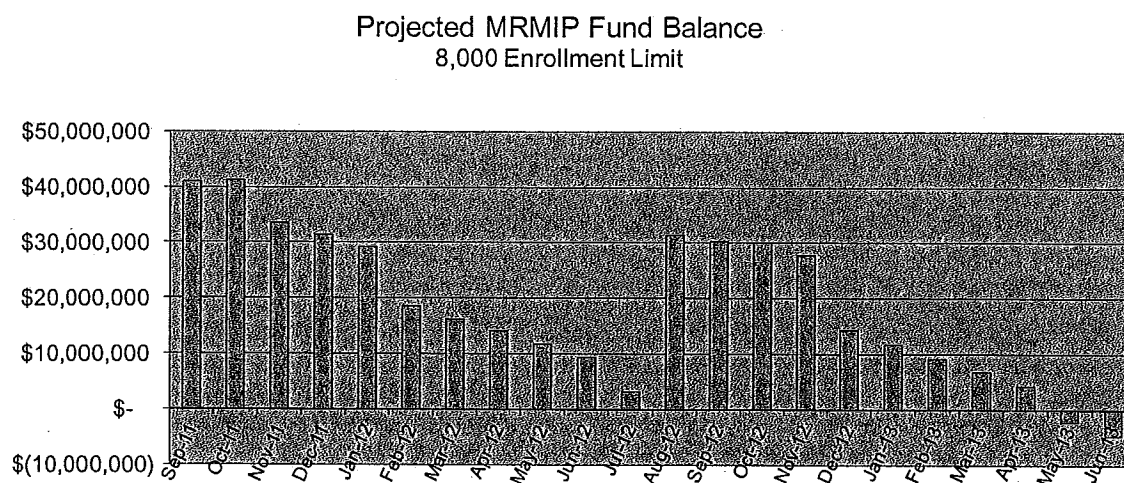
The following table summarizes the results of cash flow projections at the current enrollment target:

**Table 1**

Projected MRMIP Fund balance		
MRMIP Membership Target	June 30, 2012	June 30, 2013
8,000	\$9.3 million	(\$4.8) million

The following chart shows the projected monthly fund balances over the projection period under the current enrollment target of 8,000 individuals; note that actual results could vary significantly depending on timing and amount of settlements and actual enrollment patterns:

**Chart 1**



We also evaluated the number of MRMIP enrollees that could be covered during calendar year 2012 on an accrual basis. The results of that analysis are shown below:

Calendar Year 2012 local assistance appropriations	\$32,934,000
less Estimated GIP settlements attributable to CY 2012 enrollees	<u>\$7,900,000</u>
Estimated Funds available for MRMIP enrollees	\$25,034,000
divided by estimated Calendar Year 2012 MRMIP subsidy per person	<u>\$2,406</u>
Estimated number of MRMIP enrollees covered by available funding	10,405



We believe it is appropriate to consider both the cash and accrual estimates in reaching a decision regarding the recommended enrollment limit. The accrual estimate indicates that the current enrollment target of 8,000 can be increased when all liabilities are considered. The cash-based estimate indicates that higher numbers of enrollees can be covered during calendar year 2012 within the available budget, but that a shortfall is anticipated at the end of fiscal year 2012-2013 unless additional revenues, such as outstanding MRMIP settlements from plans, are collected. We are recommending that the Board retain the enrollment target of 8,000 for calendar year 2012. Active monitoring of applications and enrollment will ensure that corrective actions can be taken in the event that enrollment cash shortfall appears likely in fiscal year 2012-2013. Additionally, it may also be appropriate to consider changes to the MRMIP program, such as bringing benefits and premiums closer to that offered under PCIP, which offers more generous benefits and lower premiums than MRMIP.

We applied best estimates in developing these projections, but the uncertainties associated with the program lead to a wide range in projected fund balances. This suggests a conservative approach (e.g., establishing at least partial reserves or maintaining lower MRMIP enrollment) or an active (i.e., frequent re-evaluation) approach to selecting enrollment targets is appropriate until the settlement liabilities and receivables are known with more certainty. We are currently taking an active approach (by re-evaluating caseload, expenditures and projections twice a year).

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Please contact me if there are any questions.

**California Major Risk Medical Insurance Program**  
**Projection of Calendar Year 2012 Average Costs**

**Exhibit 1**

Summary of expected state costs

Average base period claim costs per person per year	\$9,497
Trend adjustment from base period to projection period	1.114
Projected claim costs per person per year	\$10,581
Average plan admin cost per person per year	\$275
Total cost per person per year for calendar year 2012	\$10,856

Summary of expected premiums

Current average premium	\$7,752
Adjustment to average expected premium level for calendar year 2012	9.0%
Average expected premium calendar year 2012	\$8,450

Expected average state subsidy **\$2,406**

Base period loss ratio	136%
Projected loss ratio	125%